



## MICRO FINANCE AND FINANCIAL INCLUSION

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### ABSTRACT

Indian agriculture sector experiences vicious circle of poverty which decelerate economic growth. Financial exclusion is one of the main reason of it. In India marginals and weaker sections are excluded from main stream of the economy. To achieve sustainable development, all sections of the people need to be come into main stream. This study is an attempt to understand the concept of financial inclusion, financial inclusion in India and micro finance. RBI defines "Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players". The present study also tries to understand how micro finance lending facilitates the acceleration of financial inclusion. Micro finance lending is a strong weapon of financial inclusion. Micro credit provided by banks emerged as a major policy tool of financial assistance in the rural credit, particularly to the poor sections of the society. Micro finance by providing small loans and savings facilities to those who have been excluded from other formal services, acting as a key strategy for reducing poverty and discrimination. Inclusive development means empowerment of weaker sections, SC/STs and women. In this context "financial inclusion" owns its significance.

**KEY WORDS:** Financial inclusion, Financial exclusion, Micro finance lending, SHG, Banking Access.

### INTRODUCTION

India has completed 11<sup>th</sup> five year plan and is going to complete 12<sup>th</sup> plan in 2017. The basic objective of 12<sup>th</sup> plan is "Faster, more inclusive and sustainable Growth." In the new era, service sector plays an a crucial role, giving largest share to GDP(52%). At the same time agriculture sector accommodates 54% of labour force of Indian economy. Indian agriculture sector experience a vicious circle of poverty. In order to break vicious circle of poverty financial inclusion is needed. Micro finance lending is a strong weapon of financial inclusion. Micro credit provided by banks emerged as a major policy tool of financial assistance in the rural credit, particularly to the poor sections of the society.

### LITERATURE REVIEW

Sulanga Das and B.C.M Patnaik observes "micro finance can empower women ,as it imparts ,strength and confidence to them to fight against poverty. Through micro finance they can become self employed and can earn their livelihood Sanjana Sathyan and Prasant Kumar opined that financial inclusiveness is improving steadily over the years ,the percentage of households availing banking services in urban areas is higher than the percentage in rural areas .Rural areas still need more attention than urban areas. Sustainability of growth process is threatened when certain sections of the society are bypassed (Pathak, 2011).

To boost micro financing initiatives and financial inclusion programme banks are deploying biometric ATM solutions to its rural customers helping illiterate or barely literate to become part of the banking user community.(Biswas,2012)

### RESEARCH PROBLEM

In India marginals and weaker sections are excluded from main stream of the economy .To achieve sustainable development ,all sections of the people need to be come into main stream of the economy. In this context "financial inclusion" owns its significance. The present study tries to understand how microfinance lending facilitate the acceleration of financial inclusion .

### OBJECTIVES OF THE STUDY

1. To understand the concept of financial inclusion and financial inclusion in India.
2. To find out financial inclusion enables to reduce poverty and discrimination.
3. To understand how micro finance helps to achieve financial inclusion.

### METHODOLOGY

This study is based on the secondary data. Data published by various institutions such as Government of India, World bank, CGAP, RBI, NABARD, various research papers, books, journals, websites etc are used.

### FINANCIAL INCLUSION

The term financial inclusion is an important issue which arises from the problem of financial exclusion. Almost 40% of the population in India is excluded from formal and systematic financial systems. Financial inclusion is intended to connect people with banks for easy affordable credit and other financial services for poor and vulnerable groups. Access to formal financial system creates enabling

condition for accelerating growth and reducing inequality and poverty.

Financial inclusion refers to the process of ensuring access to banking services for all sections of the people in the society without discrimination.

RBI defines "Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players"

Alfred Hannig- Executive Director of AFI, says "Financial inclusion is no longer a fringe subject. It is now recognized as an important part of the mainstream thinking on economic development based on country leadership."

"The process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost" ( The Committee on Financial Inclusion - Chairman: Dr. C. Rangarajan, 2008

### Goals of Financial Inclusion

The United Nations defines the goals of financial inclusion as follows:

- Access at a reasonable cost for all households to a full range of financial services,
- Sound and safe institutions governed by clear regulation and industry performance standards;
- Financial and institutional sustainability.
- Competition to ensure choice and affordability for clients.

### Why financial inclusion is important?

Financial inclusion is important because it is a necessary condition for sustaining equitable growth. It enables for transiting agrarian system to industrial society and protects the poor from the clutches of the usurious money lenders. It would help the people from lower income strata to build their savings, avail credit , insurance themselves against income shocks and meet emergencies such as illness or loss of employment. It would also help banks in mobilising a large number of low cost deposits that would help manage, both liquidity risks and asset liability mismatches.

### Financial inclusion and RBI

The current approach of RBI towards financial inclusion is multipronged.

Some major initiatives are:

1. RBI has advised banks to adopt policies in support of financial inclusion with new financial product offerings such as zero or minimal balance "no frills" accounts.
2. RBI has liberalised regulations of bank branch expansion.
3. There is a comprehensive plan to provide banking access to all villages with

population over 2000 by march 2012. About 70000 villages fall into this category.

4. RBI's regulation is being tailored to encourage innovation in financial inclusion through hand-held machines, mobile phones, ATM machines and so on.
5. Banks have been advised to draw-up board approved Financial Inclusion Plans (FIPs) for a period of three years up to march 2013, which should be integrated with the business plan of the bank.

#### Financial Inclusion in India

The term financial inclusion was first time used in April 2005 in the Annual policy statement presented by Y. Venugopal Reddy and first it is introduced in eleventh five year plan. Top 3 states are Kerala, Andhra Pradesh, Himachal Pradesh. Bottom 3 states are Bihar, Assam, West Bengal. 11 of Kerala's 14 districts figure in the top 50 scoring district in India. Ernakulam is the first financial inclusive district in India.

#### How financial inclusion can be facilitated ?

1. Usage of mobile banking
2. More use of Business Facilitator and Business Correspondent
3. Micro Finance Institutions
4. Active role of educational institutes for furthering financial inclusion.

No doubt, micro finance facilitates financial inclusion.

#### MICRO FINANCE

Micro finance is a development initiative taken by govt of India along with the RBI, NABARD, and other commercial banks, RRBs and co-operatives which proved to be beneficial for the clients as well as the micro finance institutions. Micro finance institutions play a vital role for accelerating financial inclusion. Inclusive development means empowerment of weaker sections, SC/STs and women. What is required to uplift them is financial market inclusiveness. In this context the role and importance of micro finance emerged. Micro finance by providing small loans and savings facilities to those who have been excluded from other formal services, acting as a key strategy for reducing poverty and discrimination.

Micro credit has been defined "programmes that provide credit for all self-employed and other financial and business services to very poor persons." (Micro credit summit 1997). Now a days micro finance represents more than micro credit, it also refers to savings, insurance, pawn and remittances in sum to much wider range of financial services (Tankha, 1999).

#### Progress of micro finance in india.

The institutions which engage in micro finance services in India follow three types of approaches namely:

1. Gramin Bank Approach
2. The co-operative societies approach
3. The SHG programme approach

#### Financial inclusion through SHG

Micro finance has made tremendous strides in India over the years and has become a household name in view of the multipronged benefits reaped by poor in the country. SHG bank linkage programme was launched by NABARD in 1992. The formal banking system supports the micro finance movement in India supporting SHGs by way of giving credit by bank linkage.

Table 1

Banks	No of SHG programme (2009)
Public sector commercial banks	27
Private sector commercial banks	28
Regional Rural Banks	86
State co-operative banks	31
District level co-operative banks	371

In Kerala micro finance movement has gained popularity among the poor with the success stories of the state poverty eradication mission popularly known as Kudumbasree. One of the major feature of micro finance is the availability of finance without collateral. Besides finance the member of SHG should be given proper training. So that they can become fit in home and the markets abroad.

#### FINDINGS

Major findings of the study are clubbed as under:

1. Financial inclusion supports micro finance & micro finance accelerate financial inclusion.
2. The availability of micro finance is without collateral. This enables poor to approach for micro finance.

3. Micro finance is one of the important weapon for eradicating and eliminating poverty through financial inclusion.
4. Financial inclusion has a crucial role in social and economic development.
5. Financial inclusion is possible through co-ordination between banks, government, and others to facilitate access to bank accounts among financially excluded.

#### LIMITATIONS

The time available for the study is limited. Therefore only secondary data are used for study. The concept of financial inclusion has many impact on different segments economy but present study concentrated on one aspect, micro finance and financial inclusion.

#### CONCLUSION

The micro finance lending has been proved as an effective instrument in alleviating poverty and thereby to achieve financial inclusion which ultimately leads to inclusive growth. Micro finance is one of the safest and cost effective routes credit flow to support the socio-economically disadvantaged groups. Let us remember in this context famous opinion of prof. Amartya Sen that "entitlement of the downtrodden in a society to available social avenues can originate and improve their productivity from grass root level and at the same time create their "ability" to achieve a better standard of living.

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